

Message Text

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PAGE 01 LONDON 12690 01 OF 03 021137Z

ACTION EB-08

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XMB-04 OPIC-06 H-02 /152 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6714

UNCLAS SECTION 01 OF 03 LONDON 12690

FOR: EB/TRP

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SUBJECT: SUGAR -- LONDON PRESS COMMENT ON SUGAR
CONSULTATIONS

REF: LONDON 12584

1. THE FOLLOWING IS THE TEXT OF AN ARTICLE ENTITLED
"STABLE SUGAR PRICE MOVES CLOSER" IN THE LONDON TIMES OF
AUGUST 1:

"THE DETAILS HAVE STILL TO BE FILLED IN, BUT THE OUTLINES
OF A NEW INTERNATIONAL SUGAR PRICE STABILIZATION SCHEME
ARE STARTING TO EMERGE. A NEW BID TO NEGOTIATE A REVISED
SUGAR AGREEMENT WILL NOW BE MADE IN GENEVA NEXT MONTH,
WHEN REPRESENTATIVES OF ALL THE WORLD'S PRODUCERS AND
CONSUMERS WILL RECONVENE THE CONFERENCE WHICH BROKE UP IN
DISARRAY AT THE END OF MAY AFTER SIX WEEKS OF DISCUSSION.
THE DECISION TO RESTART NEGOTIATIONS WAS MADE AFTER A
SERIES OF PREPARATORY TALKS BETWEEN 20 LEADING IMPORTERS
AND EXPORTERS AT THE LONDON HEADQUARTERS OF THE INTER-
NATIONAL SUGAR ORGANIZATION.

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PAGE 02 LONDON 12690 01 OF 03 021137Z

THEIR TASK WAS TO DISCOVER WHETHER COUNTRIES COULD SETTLE
THE DIFFERENCES WHICH SANK THE LAST ROUND OF DISCUSSIONS.
MANY OF THESE 20 NATIONS HAD THEMSELVES BEEN LEADING
FIGURES IN THE BITTER WRANGLING WHICH CHARACTERIZED THE
FINAL ROUNDS OF THE APRIL-MAY TALKS.

THAT THEY ACHIEVED MORE IN 10 DAYS IN LONDON THAN IN SIX
WEEKS IN GENEVA WAS A REFLECTION OF THE NEW FOUND DETER-

MINATION OF MANY COUNTRIES NOT TO LET SLIP WHAT COULD BE THE LAST CHANCE TO INSTIL SOME STABILITY INTO THE WORLD SUGAR MARKET. BUT THE SUCCESS OF THE LONDON MEETING WAS ALSO A TRIUMPH FOR THOSE WHO DREW UP ITS AGENDA. THIS RESTRICTED DELEGATES TO DISCUSSING ONLY POINTS OF DETAIL, AND PREVENTED THEM FROM GETTING BOGGED DOWN IN FRUITLESS DEBATE ABOUT POSSIBLE FUNDAMENTAL CHANGES OF APPROACH.

NEVERTHELESS, THIS DID NOT PREVENT THE UNITED STATES PRODUCING A FORMULA WHICH COULD PROVIDE THE BRIDGE BETWEEN THE PRODUCER AND CONSUMER CAMPS' DIFFERING IDEAS ON STOCKS. IN GENEVA, IN FACT, ONE OF THE KEY POINTS ON WHICH THE TALKS FLOUNDERED WAS T/HE QUESTION OF STOCKS AND METHODS OF FINANCING THEM - AND IT WAS THE UNITED STATES WHICH WAS CHIEFLY RESPONSIBLE FOR THIS RIFT.

THE MOTION THE UNITED STATES TABLED AT THE OUTSET OF THE GENEVA TALKS CALLED FOR MINIMUM RESERVE OF FOUR MILLION TONNES, THE FINANCE FOR WHICH WOULD LARGELY COME OUT OF PRODUCERS' POCKETS. THIS WAS FLATLY REJECTED BY PRODUCERS WHO REFUSED TO BE SWAYED FROM THEIR INSISTENCE ON A RESERVE OF NO MORE THAN 1.3 MILLION TONNES. FOR PRODUCERS THE SIZE OF STOCKS WAS A VITAL ISSUE.

WHAT THEY DEMANDED WAS A PACT UNDER WHICH SUPPLIES AND PRICES WOULD BE REGULATED BY EXPORTS QUOTAS. THEY ADMITTED SOME ROLE FOR STOCKS, SEEING THEM AS THE FINAL LINE OF DEFENCE IN THE EVENT OF ANY WIDESPREAD CROP UNCLASSIFIED

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PAGE 03 LONDON 12690 01 OF 03 021137Z

DISASTER. BUT THEY INSISTED THAT THEY BE KEPT AT THE MINIMUM LEVEL. SINCE FOR MANY PRODUCERS AN AGREEMENT WHICH FORCED THEM TO WITHHOLD, SAY, 20 PER CENT OF THEIR CROP FROM THE MARKET WOULD BE FINANCIALLY CRIPPLING. IN THE END, THE UNITED STATES WAS FORCED TO CONCEDE GROUND ON THIS POINT, BUT THEN CAME UNDER FIRE FROM CONSUMERS FOR PROPOSING AN ARRANGEMENT WHICH WOULD FORCE THEM TO HELP FINANCE PRODUCERS' STOCKS. NOW, THOUGH, THE UNITED STATES CLAIMS TO HAVE FOUND THE ANSWER. IT IS PROPOSED A RESERVE OF THREE MILLION TONNES AND SUGGESTED THAT ALL SUGAR TRADED ON THE FREE MARKET SHOULD BE SUBJECT TO A LEVY OF \$4 PER TONNE. PRODUCERS COULD THEN DRAW UPON THESE FUNDS, BORROWING THE MONEY INTEREST FREE, TO SERVICE THEIR RESERVES. THIS SCHEME, WHICH IS LIKELY TO BE THE FOCAL POINT OF THE SEPTEMBER TALKS, HAS ALREADY DRAWN SOME RESPONSE FROM PRODUCERS, WHO NOW SAY THAT THEY WOULD ACCEPT STOCK LEVELS OF TWO MILLION TONNES. SOME PRODUCERS MAY EVEN GO AS HIGH AS 2.5 MILLION TONNES IF CONSUMERS LIKE JAPAN AND CANADA CAN BE PERSUADED TO ACCEPT THE UNITED STATES PROPOSAL. THE OTHER BIG ISSUE IN GENEVA WAS PRICE, AND HERE, TOO, THERE IS NOW GREATER AGREEMENT. AT THE APRIL-MAY TALKS,

THE BODY OF PRODUCERS BACKED THE CUBAN CALL FOR A MINIMUM

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PAGE 01 LONDON 12690 02 OF 03 021157Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 AF-10 ARA-14 EA-09 NEA-10
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R 021123Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6715

UNCLAS SECTION 02 OF 03 LONDON 12690

AGREEMENT PRICE OF 15 CENTS PER LB, WHICH COMPARES WITH
A CURRENT PRICE IN NEW YORK OF AROUND 7.75 CENTS PER LB.
CONSUMER PRICE IDEAS RANGED AS LOW AS 6 CENTS, WITH THE
UNITED STATES AGAIN ADOPTING A LINE TOTALLY DIFFERENT
FROM EVERYBODY ELSE. THE UNITED STATES IS KEEN TO SEE
MINIMUM PRICES FIXED AT A LEVEL WHICH WOULD REDUCE THE
POTENTIAL FINANCIAL BURDEN OF THE SUBSIDY WHICH IT MAY
SOON BE PAYING ITS OWN PRODUCERS.

SUGAR PRODUCERS IN THE UNITED STATES SAY THEY NEED A
PRICE OF 13.5 CENTS TO COVER COSTS. HIGH COST PRODUCERS
IN THE CARIBBEAN RECKON THAT THEY NEED A SIMILAR RETURN,
THOUGH AT THE TALKS IT NOW LOOKS AS IF PRODUCERS WILL
SETTLE FOR A MINIMUM GUARANTEE OF 13 CENTS.

THIS, THEY ARGUE, IS A LEVEL WHICH WOULD NOT SOARK A MASS
DEFECTION OF CONSUMERS TO ARTIFICIAL SWEETENERS, AND
SOME PRIVATELY CONCEDE THEIR WILLINGNESS TO ACCEPT A
FLOOR PRICE OF 11 CENTS - WHICH MAY BE VERY NEAR THE AREA
OF COMPROMISE.

SO EVERYTHING NOW HANGS ON THE OUTCOME OF THE THREE WEEKS
OF TALKS PLANNED FOR NEXT MONTH. ALL THE DIFFERENCES
WHICH DESTROYED THE LAST COUNCIL MEETING WILL THEN HAVE A
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PAGE 02 LONDON 12690 02 OF 03 021157Z

CHANCE TO REEMERGE, BUT DELEGATES ARE CONFIDENT THAT WITH THE FRAMEWORK OF A NEW AGREEMENT NOW FORMING IT MAY NOT BE TOO DIFFICULT TO SETTLE FIRST ORDER QUESTIONS LIKE THE LEVEL OF STOCKS, PRICES AND QUOTAS, AND THE VARIOUS WAYS IN WHICH THE THREE WILL RELATE. THEN THERE ARE ALL THE SECONDARY BUT EQUALLY CONTROVERSIAL ISSUES LIKE THE SPECIAL SALES ARRANGEMENTS WHICH CUBA HAS

WITH THE SOVIET UNION, AND THE POLICING OF STOCKS. THERE IS MUCH HARD BARGAINING TO COME BUT NOBODY IS PREPARED TO WRITE OFF THE CHANCES OF A NEW PACT."

2. THE FOLLOWING ARE RELEVANT PORTIONS OF AN ARTICLE ENTITLED "CUBA'S COMPROMISE RAISES HOPES OF NEW SUGAR PACT" IN THE GUARDIAN OF AUGUST 1:

"TWO INTERNATIONAL AGREEMENTS WERE GIVEN ANOTHER CHANCE LAST WEEK. DELEGATES TO THE COCOA TALKS IN LONDON DECIDED TO MEET AGAIN IN SEPTEMBER FOR A FINAL ATTEMPT TO BREAK THE CURRENT STALEMATE, WHILE THE LIKELIHOOD OF A NEW SUGAR AGREEMENT WAS IMPROVED BY A DECISION TO RECONVENE THE GENEVA RENEGOTIATING CONFERENCE. THE LONDON SUGAR TALKS WERE ARRANGED TO KEEP UP THE MOMENTUM GENERATED BY THE APRIL/MAY CONFERENCE IN GENEVA, WHICH ENDED WITH EXPORTERS AND IMPORTERS DIVIDED ON WHAT SORT OF PACT THEY WANTED. THE TALKS LAST WEEK BROUGHT TOGETHER THE 20 LEADING COUNTRIES REPRESENTED AT GENEVA TO FIND A FORMULA THAT WOULD ENSURE A GOOD CHANCE OF SUCCESS SHOULD THE FULL 70-NATION CONFERENCE BE RECONVENED. THAT THE CONFERENCE WILL NOW GO AHEAD ON SEPTEMBER 12 FOR THREE WEEKS IS A CLEAR SIGN THAT MAJOR COMPROMISES HAVE BEEN MADE BY BOTH SIDES AND THERE IS NOW A BRIDGEABLE GAP BETWEEN THEM. THE OPTIMISTIC AMBASSADOR OF ONE LEADING UNCLASSIFIED

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PAGE 03 LONDON 12690 02 OF 03 021157Z

EXPORTING COUNTRY SAID THAT DELEGATES LEFT THE LONDON TALKS ON FRIDAY "IN VERY GOOD SPIRITS". HOWEVER, ALTHOUGH THE GROUND HAS BEEN PREPARED, THE BIG ISSUES STILL HAVE TO BE NEGOTIATED. THESE INCLUDE THE PRICE RANGE ANY FUTURE PACT SHOULD PROTECT AND THE MECHANISM TO BE USED. THE WAY OPEN TO A SETTLEMENT OF THE FIRST ISSUE HAS BEEN PROVIDED BY CUBA'S COMPROMISE IN LONDON LAST WEEK, WHEN IT LOWERED ITS PRICE TARGET TO 13-23 CENTS FROM THE PREVIOUS 15-25 CENTS. OTHER PRODUCERS ACCEPT THIS AS THEIR NEGOTIATING POINT AND INFORMED SOURCES BELIEVE THEY WILL FINALLY BE PREPARED TO SETTLE

FOR A RANGE OF 11-21 CENTS.

ON THE QUESTION OF THE MECHANISM TO KEEP WORLD PRICES WITHIN THIS RANGE, IT SEEMS GENERALLY AGREED THAT A RESERVE STOCK SHOULD BE BUILT UP, WITH PRODUCERS STORING SURPLUS SUGAR IN THEIR OWN COUNTRIES. THE SIZE OF THE STOCK NEEDED AND ITS FINANCING WAS ONE OF THE MAJOR REASONS FOR THE FAILURE IN GENEVA EARLIER THIS YEAR, SO IT IS CRUCIAL THAT SOME COMPROMISE CAN BE ARRIVED AT IN SEPTEMBER.

AT THE MOMENT, PRODUCERS SAY A STOCK OF TWO MILLION TONNES WOULD BE NEEDED, WHILE MOST CONSUMERS APPEAR TO FAVOUR THE USA'S SUGGESTION OF THREE MILLION. HOWEVER, PROVIDED THEY WERE GIVEN SUFFICIENT FINANCIAL HELP TO KEEP SUGAR OFF THE MARKET, PRODUCERS SEEM WILLING TO CONSIDER A STOCK OF 2.5 MILLION TONNES.

PRODUCERS, WHO HAD ARGUED IN FAVOUR OF QUOTAS AS THE BEST MEANS OF PRICE DEFENCE, NOW SEEM TO ACCEPT THE STOCK PLAN. THEY HAD OBJECTED BEFORE, BECAUSE THEY WOULD HAVE HAD TO BEAR THE BURDEN OF FINANCING STOCKS UNDER EARLIER SCHEMES. THEY APPEAR TO HAVE BEEN WON OVER BY THE US PROPOSAL THAT

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PAGE 01 LONDON 12690 03 OF 03 021154Z
ACTION EB-08

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R 021123Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6716

UNCLAS SECTION 03 OF 03 LONDON 12690

A \$4 A TONNE LEVY BE IMPOSED ON WORLD FREE MARKET SUGAR TRANSACTIONS AND THAT THE MONEY COLLECTED IN THIS WAY SHOULD GO AS LOANS TO PRODUCERS TO HELP COVER STORAGE COSTS. TO ENCOURAGE PRODUCERS TO RELEASE SUGAR, WHEN PRICES BEGAN TO RISE, THE US PROPOSAL IS THAT THE LOANS

WOULD BE REPAYABLE ONCE THE WORLD PRICE REACHED A SPECIFIC TRIGGER POINT.

PRODUCERS MAINTAIN THIS COULD BE THE BASIS OF AN ACCEPTABLE FORMULA, BUT FURTHER WORK NEEDS TO BE DONE ON IT. EXPORTERS ALSO LOOK LIKE RETAINING A ROLE FOR QUOTAS IN A NEW AGREEMENT AS A BACK-UP TO THE STOCK SYSTEM. QUOTAS, IT HAS BEEN PROVISIONALLY AGREED, WOULD COME INTO FORCE WHEN PRICES REACHED TRIGGER POINTS TOWARDS THE BOTTOM OF THE PRICE RANGE. QUOTA ALLOCATIONS WOULD PROBABLY BE BASED ON A COUNTRY'S PAST EXPORT PERFORMANCE AND ITS FUTURE EXPANSION PLANS.

THESE ARE THE BARE BONES OF THE POSSIBLE COMPROMISE FORMULA. ITS CHANCES OF BEING ACCEPTED HAVE BEEN HELPED BY INDICATIONS THAT THE EEC - ISOLATED IN ITS POSITION THAT QUOTAS SHOULD HAVE NO ROLE IN A NEW PACT - WILL ADOPT A MORE FLEXIBLE LINE, HELPED BY UK AND DUTCH PRESSURE. UNCLASSIFIED

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PAGE 02 LONDON 12690 03 OF 03 021154Z

OPTIMISM HAS BEEN ENCOURAGED, TOO, BY THE CUBAN COMPROMISE AND THE CLEAR DETERMINATION OF THE US TO CREATE A SUGAR PACT AS PART OF ITS OWN DOMESTIC PRICE SUPPORT POLICY. HOWEVER THERE ARE PROBLEMS - THE US COULD HAVE TROUBLE GETTING A NEW PACT ACCEPTED BY CONGRESS AND SOME EXPORTERS MAY NOT LIKE OBSERVERS COMING IN TO CHECK THAT CONTROLS ARE BEING OPERATED. OBSERVERS SAY THAT, PROVIDED NOT TOO MANY OPTIONS ARE LEFT OPEN TO DELEGATES AND FURTHER PRELIMINARIES ARE KEPT TO A MINIMUM, THE SPIRIT GENERATED LAST WEEK AND AN IMMEDIATE START TO TOUGH TALKING COULD PRODUCE A NEW PACT."

3. FINALLY, THE FOLLOWING ARE THE RELEVANT PORTIONS OF AN ARTICLE ENTITLED "NEW BID FOR SUGAR PACT AGREED" IN THE FINANCIAL TIMES OF JULY 30:

"A NEW ATTEMPT IS TO BE MADE TO FORM AN INTERNATIONAL SUGAR AGREEMENT, IT WAS ANNOUNCED YESTERDAY. A NEGOTIATING CONFERENCE IS TO BE HELD IN GENEVA FROM SEPTEMBER 12 FOR THREE WEEKS, FOLLOWING THE MEETING IN LONDON OF 20 LEADING IMPORTING AND EXPORTING COUNTRIES. IT WAS DECIDED THAT SUFFICIENT PROGRESS HAD BEEN MADE TO MAKE IT WORTHWHILE RECONVENING THE NEGOTIATING CONFERENCE HELD IN APRIL-MAY THAT WAS ADJOURNED WITHOUT ANY AGREEMENT BEING REACHED. SINCE THEN SOME COUNTRIES HAVE AMENDED THEIR POSITIONS, NOTABLY THE U.S. THE BASIC IDEA IS TO HAVE AN EXPORT QUOTA SYSTEM LINKED TO AN AGREED PRICE OBJECTIVE RANGE. BACKING THIS UP WOULD BE NATIONALLY HELD RESERVE STOCKS, FINANCED BY A LEVY ON SUGAR IMPORTS AND EXPORTS IMPOSED BY MEMBERS OF THE AGREEMENT. THE U.S. DELEGATE AT THE LONDON TALKS CLAIMED LAST NIGHT

THAT THE MAJORITY OF COUNTRIES REPRESENTED WERE CONFIDENT
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PAGE 03 LONDON 12690 03 OF 03 021154Z

AN AGREEMENT COULD NOW BE NEGOTIATED ALTHOUGH THERE WAS
STILL A LONG WAY TO GO."

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